

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)	
)	
1998 Biennial Regulatory Review)	CC Docket No. 98-81
Review of Accounting and Cost)	
Allocation Requirements)	
)	
United States Telephone Association)	ASD File No. 98-64
Petition for Rulemaking)	
)	

AUG - 8 1998

REPLY COMMENTS OF BELLSOUTH

BellSouth Corporation and BellSouth Telecommunications, Inc. ("BellSouth") hereby reply to the Comments made in response to the Notice of Proposed Rulemaking ("Notice"), FCC 98-108, released June 17, 1998, in the captioned proceeding.

I. INTRODUCTION

The Comments filed by almost all of the parties participating in the above docket agreed that the proposals in the Notice regarding changes in Parts 32 and 64 were good beginnings. Many of the parties, however, like BellSouth, contend that the Commission fell short of its obligation under Section 11 of the Telecommunications Act of 1996 ("1996 Act") to do more in the way of repealing or modifying rules in Parts 32 and 64 that are no longer in the public interest. Most of the large incumbent local exchange carriers ("LEC") and the United States Telephone Association ("USTA") provided proposals recommending the elimination or modification of many of these outdated rules. BellSouth strongly supports the proposals made by the LECs and USTA and reiterates its position that the Commission should adopt the proposals set forth in its Comments.¹

¹ BellSouth realizes that many of the proposals overlap and therefore only the non-repetitive items from each proposal should be adopted.

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II. THE COMMISSION SHOULD RECOGNIZE PRICE CAP REGULATION NO LONGER REQUIRES THE BURDEN OF OUTDATED ACCOUNTING RULES.

The proposals in BellSouth's Comments not only included extending to all LECs the relief the Notice proposes to provide only to mid-sized LECs, but also made several recommendations regarding the elimination or modification of several rules in Parts 32² and 64³. These recommendations are based on the fact that large LECs are no longer subject to rate of return regulation but are under price cap regulation. Accordingly, implementation of the recommendations is clearly in the best interest of the industry. In support of this conclusion BellSouth directs the Commission to an extensive white paper filed with the Commission on July 15, 1998 by Arthur Andersen analyzing the existing accounting cost allocation and affiliate transaction rules.⁴ This Report provides a thorough analysis demonstrating that the existing rules no longer reflect the existing regulatory and competitive paradigm and impose unnecessary and costly constraints on the carriers subject to their requirements. Indeed, in discussing Part 32 the Report stated:

The accounting rules embodied in Part 32 (in particular the level of accounting and recordkeeping specificity required) were developed principally to support rate of return regulation in the absence of competition. As all LEC Coalition members and many other large LECs have adopted price cap regulation without earnings sharing in the interstate jurisdiction (and in the majority of state jurisdictions), and as increased competition is the overall goal of the Telecommunications Act, those accounting and recordkeeping requirements designed in support of traditional rate of return regulation are no longer necessary.⁵

Because Part 32 Rules are no longer needed for regulation, the Report goes on to demonstrate the utter futility in preparing financial data under these draconian rules.

² 47 C.F.R. § 32 *et. seq.*

³ 47 C.F.R. § 47 *et. seq.*

⁴ *Ex Parte* filed July 15, 1998, "Accounting Simplification in the Telecommunications Industry," prepared by Arthur Andersen LLP ("Arthur Andersen Report" or "Report").

⁵ Arthur Andersen Report at 52.

Specifically, "Part 32 no longer serves as an external financial accounting or reporting system"⁶ for the LECs. Moreover, LEC "management no longer utilizes USOA results to manage the business ...[because] the expenses as categorized under Part 32 do not present a clear picture of activities performed to produce a product or service "⁷ Indeed, the Report reached "the overall conclusion ... that [Part 32] does not reflect the existing regulatory and competitive paradigm [, but] ... has evolved into a regulatory reporting system solely to meet regulatory reporting requirements."⁸ Thus, the information gleaned from Part 32 is apparently useless to everyone except the Commission staff.

The Arthur Andersen Report makes its own recommendations for eliminating several of the extraneous rules found in Part 32. Many of these recommendations are included in BellSouth's, the other large LECs' and USTA's recommendations. The Commission should fulfil its statutory obligation under Section 11 of the 1996 Act and implement the proposals suggested in these parties' Comments.

In addition to the recommendations made regarding Part 32, BellSouth provided proposals for eliminating or modifying many of the rules regarding the Cost Allocation Manual ("CAM") in Part 64. The same justification applies: cost allocation issues are no longer relevant to LECs under price cap regulation. Nothing in any of the Comments provided to the Commission suggested evidence to the contrary. Indeed the majority of the Comments supported a reduction further in the current Part 64 rules. BellSouth asks the Commission to review the record carefully and implement the proposals in its Comments.

⁶ *Id.* at 12.

⁷ *Id.*

⁸ *Id.* at 1.

III. MCI'S OPPOSITION DOES NOT RAISE SIGNIFICANT ISSUES.

MCI opposes the Notice's proposal to allow mid-sized LECs to use Class B accounting and the proposal to decrease the frequency currently required for the CAM audit by mid-sized LECs. In its opposition to Class B accounting, MCI asserts that Class A accounting fulfills the Commission's need for information to conduct investigations of tariffs and cost misallocations that is not provided with Class B accounting. As BellSouth indicated in its Comments, however, the Commission typically requests the information needed in these types of investigations; it is not listed in financial information even with Class A accounting. Any information needed for such investigations, which is not obtainable from Class B filings, would still be available at the Commission's request.

MCI also contended that Class A accounting was needed to provide state regulators with information in certain state proceedings. However, Class B accounting can also provide the state regulators sufficient information. Indeed, MCI fails to offer any reason to suggest that Class B information would not be adequate. Finally, MCI claims that Class A accounting is needed for the Commission to track competitive changes made by the LECs. In reality, the Commission does not need to continue to track competitive changes, but it is MCI who wants to continue to receive this information. MCI gains a great competitive advantage by having access to this information. This is especially true as MCI and the LECs enter each other's markets. Contrary to MCI's claims, LECs should not be forced to provide such information when its competitors are not under the same obligation.

V. CONCLUSION

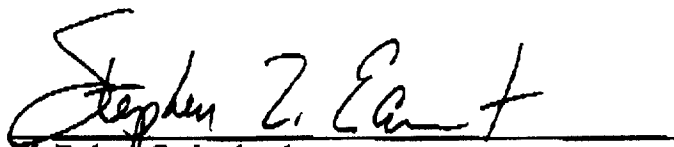
In its Comments, BellSouth urged the Commission to recognize the effect the changes in the telecommunications industry has had on many of the accounting and cost allocation rules

implemented a decade ago for rate of return regulation. These rules are obsolete, and serve no useful purpose. Moreover, they do not reflect the change that has occurred and continues to occur in the telecommunications industry. In fact, while other requirements and processes are being streamlined and simplified the accounting and cost allocations requirements have continued to become ever more burdensome.

Pursuant to Section 11 of the 1996 Act, it is clear that the Commission has a statutory obligation to reverse this trend and follow Congress' mandate and eliminate regulation that is no longer in the public interest. In its Comments, BellSouth demonstrated that the price cap LECs have no incentive or ability to engage in cost shifting. Many of the existing accounting and cost allocation rules, which are vestiges of rate of return regulation, are no longer necessary and should be eliminated. Thus, the Commission should, therefore, apply the proposals in the Notice to include not only mid-sized LECs, but also large LECs. Additionally, the Commission should adopt the recommendations set forth in BellSouth's Comments.

Respectfully submitted,

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Date: August 3, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this 3rd day of August 1998, serviced all parties to this action with the foregoing REPLY COMMENTS, reference docket CC 98-81, ASD File No. 98-64, by hand service or by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties as set forth on the attached service list.


Julia W. Spires

CC DOCKET 98-81, ASD FILE 98-64

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